

City of Durham
FY 2017-18 Budget Development Guidelines
March 23, 2017

INTRODUCTION

The development of budget guidelines is a best practice and supports **Goal 4 of the Citywide Strategic Plan; Innovative and High-Performing Organization**. One of the objectives of Goal 4 is to **promote long-term financial stability**. Accomplishing that requires a sustainable General Fund budget. The General Fund is the primary fund for the city and supports 22 of the 25 city departments including 1,751 employees.

We are challenged by financial constraints that limit the organization's ability to fund all of the community's needs. However, prudent planning and analysis can ensure support for high impact programs.

Recognizing the need to be prudent, while prioritizing the needs of Durham residents, the City Manager shall use the following **Budget Development Guidelines to prepare the FY2017-18 Proposed Budget**.

OVERALL

The budget should prioritize funding based on the City's Strategic Plan, what's needed to accommodate population growth, requirements driven by State and/or Federal mandates, and initiatives consistent with the City Council's priorities.

REVENUES

For FY 2016-17, the two largest sources of revenue to support **General Fund** operations are local **property taxes (49%)** and local **sales taxes (32%)** representing 81% (**\$147M**) of the fund's **\$181M budget**. Local property taxes also fully support the Debt Service Fund which accounts for the City's General Fund debt service obligations. The property tax appropriation for the **Debt Service Fund is \$35.8 million** for FY2016-17.

SB 126, if approved, will further limit financial support for the general fund. The bill, which was filed on February 22, 2017 by **Senator Harry Brown**, redistributes a portion of local option sales taxes. **This bill has significant implications for Durham, the potential loss in revenue for the City is \$2.1M.** Due to uncertainties such as this, we should continue to be prudent in our financial decisions for long term sustainability.

The City must use a strategic approach to balance the budget by assessing revenue enhancement opportunities and cost control. This year all departments are reviewing existing fees and benchmarking with peer cities. **The FY2017-18 Budget must support the City's Strategic Plan and identify funding to enhance priority programs and services.**

- The tax rate for the **General Fund** will be at least **32.99 cents** (per \$100 assessed value), including an increase of 0.79 cents to **support new public safety initiatives**. An **additional tax rate adjustment up to 0.93 cents** (per \$100 assessed value) may be considered to cover the unfunded portion of **implementating the new police and fire pay plans**.
- **The tax rate for debt service and cash funded capital will not exceed the current rate of 13.02 cents** (per \$100 assessed value) including fleet replacement.
- **Fund balance** in the **General Fund** will not be projected to fall **below 12%** at the end of **FY2017-18**.
- The tax rate for the **Solid Waste Fund** will **not not exceed 6.29 cents** (per \$100 assessed value). This represents an increased allocation from the General Fund tax rate in the amount of 0.16 cents to fund increases for indirect costs.
- Funding of the Downtown **Business Improvement District (BID)** shall remain at **7 cents** (per \$100 assessed value).
- The tax rate for the **Dedicated Housing Fund** should be at least **1 cent** (per \$100 assessed value). An **additional tax rate adjustment of up to 1 cent** (per \$100 assessed value) may be considered to fund the Five-Year Affordable Housing Goals.
- The **Transit Operating Fund** tax rate allocation will be reduced to 3.56 cents (per \$100 assessed value) due to the elimination of the fund deficit. Consideration of **additional new/expanded services** included in the update to **Bus and Rail Investment** plan will require an increase in the property tax rate allocation.
- **Non-recurring funds** should not be directed toward recurring uses.
- A tax rate increase may be considered to **fund new initiatives** (with recurring cost) that can not be otherwise funded.
- **Fee adjustments** will be considered, as appropriate, to align fee revenues with cost of services for better cost recovery rates.
- Proposed **water and sewer rate** increases will not exceed an average of **3.0%**.
- **Stormwater rates will remain unchanged** for the **FY2017-18** fiscal year.

EXPENDITURES

To balance expenditures against forecasted revenues, the City Manager shall continue to monitor performance data to guide focused discussions with City departments regarding program and service priorities. This includes possible areas for elimination, reduction,

reorganization, new partnerships, and/or alternative service delivery models that address the performance and efficiency of City programs.

- City employees are at the core of City services. One objective under **Goal 4 of the City's Strategic Plan is to “establish an exceptional, diverse, engaged and healthy workforce”**. Attracting and retaining a competent, high quality workforce is essential to being a high performing organization. Therefore, we will continue to consider employee compensation adjustments as a priority. **The following pay and benefit components will be proposed:**
 - Pay for Performance (P4P) pay plan for General employees - 4.0% average (flat with FY2016-17).
 - Pay Plan for sworn Police employees – 5.0% average (0.5% increase).
 - Pay Plan for sworn Fire employees - 5.0% average (1.0% increase).
 - Supplemental Retirement -401K – remain at 5.0%
 - Medical Insurance for all employees - average increase for the City 11.5% and employees 8%.
 - Dental insurance – cost will remain flat for both the City and employees
- **Funding for 30 additional fire fighters (30 new FTEs)** will be included in the general fund budget supported by a tax rate increase of 0.67 cents.
- Funding to support the **Community Oriented Policing Services (COPs)** grant will be supported by a tax rate increase of 0.12 cents.
- **Parks and Recreation - Expansion of Services for Youth and Fee Free Services** will be considered at an additional tax rate increase of up to .20 cents (per \$100 assessed value).
- The dedicated **street resurfacing fund** will be increased by at least **\$1,000,000 and up to an additional \$2,000,000 from fund balance** will be considered FY2017-18.
- Funding for **deferred maintenance** will increase by **\$100,000** from **\$700,000** for FY2016-17 to **\$800,000** for FY2017-18.
- **Fleet replacement funding** for the General Fund will be provided in accordance with the Fleet department's **10-year recommendation plan** within the debt model.
- General Fund balance will be used to fund **phase 2 of the sworn Police take home vehicle initiative**.
- New funding priority will be given to those requests that support the **strategic plan** including **initiatives that address quality of life issues**.